

The **MAGAZINE** *of* **WALL STREET**



Is Prosperity Breaking Down?

An Analysis of Recent Reaction

Why the Oils Have Declined

And When Will They Recover?

How Wall Street Was Swindled

Inside Methods of a New Gang of Financial Crooks Exposed



School for Traders & Investors

Sixth Lesson

Support and Pressure and Their Meaning—How Large Interests Accumulate—The Foundation of Market Movements

IN a preceding lesson we have shown how the price level of any market, or group, or individual stock depends very largely upon the character of the support—not only the bid price, but the quantity bid for and the scale orders underneath the market. It is customary among those who are influential in the market to speak of this support as the foundation on which the stock or the whole market rests; this foundation is built very largely on the amount of stock in strong hands.

At the low point of a decline there may be a lot of weak selling and strong buying, accompanied by much short-selling and bear-raiding; as both kinds of offerings gradually become absorbed by the stronger character of buying, prices cease to decline and a gradual hardening sets in. This is due to the fact that the people who are able and also willing to buy at that level are becoming more powerful than those who are selling. Hence, unless the stock is artificially depressed for a considerable time in order to increase the amount of accumulation at low levels, there should naturally follow a slow rise which may gain in speed and volume as the more favorable aspects of the situation appear.

How the "Foundation" Is Removed

When the market or a given stock is selling at very high prices, and a pool or a large operator is in process of distributing, strong support will be rendered to that stock by numerous bids for round lots scattered among different brokers, making it appear that many buyers are in the crowd. But as soon as the distribution is completed or it is found necessary to begin selling on the way down, this support is withdrawn—a process known as "removing the foundation."

These two illustrations show the importance of considering the price level, volume and character of the support as factors in judging the position of a stock. Of course, no one can tell how much of the support is artificial. A stock must be judged more by all of its actions than any single move in one direction or the other. It is the strong or weak buying power beneath the stock that makes for strength or weakness more than any other one factor.

At times the bid price may represent

only one hundred shares wanted at that figure, and there may be a few or no bids down below. No one knows just what may be underneath a single bid; a broker may be bidding for one hundred shares only, but willing to buy 5,000 shares at that price if he can get them. We have seen markets hanging for a considerable time on the bid price for one hundred shares, with no better bid than another hundred shares at one, two or three points below that figure, so that if any one coming into the crowd should supply that bid and then try to sell another hundred shares, he would have to offer it down one, two or three points before the next sale could be made. That is what is known as a thin or hollow market, where the structure beneath is of the papier-maché variety and easily punctured.

AS an accompaniment to this article, we are publishing an unusually interesting letter from one of our subscribers. This is only one of the many communications received since the inauguration of the School for Traders & Investors. The large response already had indicates the deep, underlying interest in matters relating to stock market methods and the like, and we shall be only too happy to answer either in these columns, or personally, as many questions as our subscribers care to ask. Letters should be addressed to The Professor.

The offerings of stocks are often the predominating factor, and the whole question of price fluctuation depends upon the relation between the amount of stock wanted and the amount offered at a given level. This constantly shifting supply and demand—the varying quantities bid for or offered—is what produces the fluctuations. The tape does not register all of them. The last sale of a stock may be 95, and the bid and asked prices may change within a few minutes from $94\frac{1}{2}$ @ $95\frac{1}{2}$, to $94\frac{3}{4}$ @ $95\frac{1}{4}$, or $94\frac{1}{4}$ @ 95, all without any transactions being consummated and therefore unknown to the man who watches the tape in his broker's office. That shifting, bid and asked price is, therefore, a more minute measure of the market than the actual sales. In the jockeying back and forth each broker tries to buy as cheaply as he can and sell at as high a price as he can. There are thousands of these little tugs-of-war going on

all over the floor of the Stock Exchange at the same moment.

The Bid Price

In the last analysis, however, the price which somebody or a lot of somebodies is willing to pay for the stock is the real determining factor. "A stock is worth what you can get for it," is an old adage; which is another way of saying that no matter what the last sale, the bid price is the one that really establishes the market for that stock.

In preparation for great changes in the character of the market, the largest interests in Wall Street operate in a great many stocks and with lines running into millions of shares. Their accumulation is usually accomplished in the lower ranges of a decline—not always the very bottom unless there is a panic or some swift downward movement which partakes of the nature thereof. At such times they can accumulate a vast number of shares within a short time, but under ordinary conditions, when a bear market has about reached its low and the general situation is one that will not be reversed from bearish to bullish immediately, the accumulation is apt to be leisurely and is likely to run over some months. A great many of the purchases for long account of these large interests are made from those who are selling stocks short, but, of course, liquidation by investors who have

become frightened or discouraged at the gloomy outlook is another big factor in producing a large volume of sales and thereby making it possible for large interests to purchase heavily. There is nothing unfair or unethical about this process; it simply is a question of knowing what and when to purchase, as well as how to do it to the best advantage. Those who sell short at such times, or those who go down into their safe deposit boxes and dig out securities which they fear to hold, are of the less experienced kind of traders and investors, because any one who has been operating in the market for a number of years knows that times of depression, panic and unsettled markets are not good times to sell either long or short stocks. Those are the periods in which bargains are frequently secured and the biggest bargains usually come when the situation looks the blackest. Investing and trading in stocks is more or less of a science and

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No Mystery

There is no mystery about this ability to interpret facts that are available to anyone who cares to observe them. It is the result of study, over a period of time, and I do not believe that one can make a success of trading in any other way. One who is unwilling to give the market serious study is too lazy to ever become a successful trader, and in all probability his commitments are merely matters of chance, for without the necessary knowledge he is simply gambling.

What the Average Trader Needs

It seems to me that the trader who can study the behavior of the market once a day, and who will keep up-to-date records, preferably in the form of graphs, of price changes and volumes of sales of individual stocks in which he is interested; (2) Well chosen averages of leading industrial groups; and (3) General market averages, will be able to make a serious and instructive study of the action of the market from a purely technical standpoint. Furthermore, if he will supplement this study by careful inquiry into the fundamental influences on his favorite issues, he will have most of the information essential to the successful forecasting of price movements, provided of course that he is able to interpret the facts he has so carefully gathered.

Of course, to the trained tape reader further away from the market. sooner that it can be observed by one see the beginning of an important swing fluctuations, and perhaps opportunity to this advantage relates to the minor daily newspapers, but to a considerable extent from the records published in the evening over one who must get his information the market session, has an advantage transactions as recorded on the tape during the market.

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power without which all efforts to make money in the stock market must fail.

It is my belief, based on personal observation and criticism of my position—that this so-called "market instinct" is nothing mysterious at all, but simply the ability to interpret with a reasonable degree of accuracy the true meaning and significance of price movements and volume changes, and their relationship. If this be true, there is hope for most traders who are willing to give the subject the necessary study.

All of this means that buyers are coming from somewhere, and if they are able to absorb whatever offerings appear at that level, they furnish strong support in that stock. As those who sell long stocks can only do so once with the same shares and as those who sell short cannot continuously sell and thereby indefinitely increase their short lines, there must, sooner or later, be a let-up. It is at such times that the invisible inside buying becomes the important factor. Beneath the surface a foundation for a rise has been laid.

Therefore, this communication will present personal views with regard to one topic of frequent discussion in connection with speculation, or—to be more exact—trading. My primary object is to offer encouragement to amateur traders, particularly those who may be disheartened by a series of apparent blunders, and to whom some friend with an assumed air of wisdom may have remarked that to be a successful trader one must have "market instinct," as if this were some mysterious

"Instinct" in the Market

So much space has been devoted in your columns to the subject of sound investment, that your regular readers are well abreast of the times in this respect, and can keep themselves informed on all new developments in the investment and business cycles, as they continue to absorb, so far as their time will permit, the semi-monthly installment of excellent judgment-forming material that will be forthcoming in subsequent issues of your publication.

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A Student's Comments on Market Instinct

For the Special Benefit of the Amateur Trader

Very often, when they are accumulating stocks, they do not bid for them at all. They do not want to support the market. They let other people offer stocks and then they take them. That is why at such times brokers report to their clients that there is little stock wanted; that the support is very poor and that stocks look like going lower. This diagnosis, while it may be true, does not take into account the gradual buying that is going on under cover; that is, through different brokers, in various quantities, so that not even the specialist who stands in the one crowd all day can say how much stock is taken for large interests; it all looks like scattered buying to him. But the trader or investor who is watching the character of the market, endeavoring to study the support given it, has another factor which should speak volumes to him at this point, and that is: In spite of the lack of support and notwithstanding the pressure of a heavy volume of sales, the stock does not decline materially below a certain figure.

Buying Under Cover

These powerful interests who operate in such a large way have made it a life work. They have many millions involved, but the handling of enormous lines would eventually ruin them if it were not properly done, just as it is apt to lead to disastrous consequences on the part of the smaller operator.

SCHOOL FOR TRADERS AND INVESTORS

(Continued from page 134)

operation are persistently selling the stock to numerous scattered buyers who have no common interest in the issue, but are buying it because trade reports are favorable, or because its dividend return appears fairly attractive in comparison with other similar issues.

In this comparison on the action of a stock under accumulation or distribution, the point I wish to make is that there is no mystery with regard to the conclusions that may be drawn from its behavior, but that this conclusion may be the result of a careful and detailed study of the action of the stock, together with the action of other stocks of a similar character, and finally, the action of the market as a whole. It may also be influenced by innumerable observations made previously, on the same stock, or other issues, under similar circumstances, or at somewhat comparable stages of the general market cycle, and that success in judging the price trend is not determined by any "instinct," but by serious analytical study of the problem.

H. J. W.

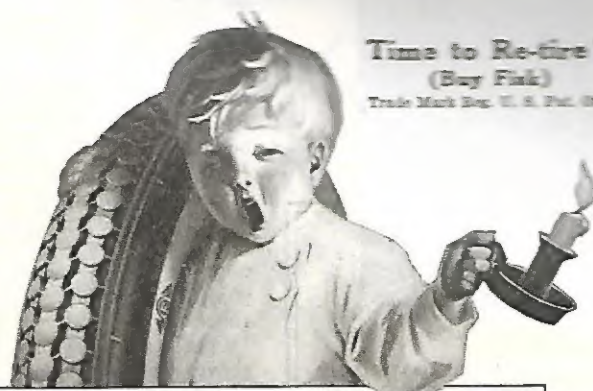
THE SHIPPING SITUATION IN BLACK AND WHITE

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nomic. Its isolation has occurred at a time when, in the opinion of some, European nations could not have humanly avoided demoralization; when, too, this country could not have avoided prosperity; nevertheless, the contrast between demoralization, over there, and prosperity over here has exerted a vivid effect on the American imagination, and it seems calculated to discourage any extension of aid abroad, at least for a lengthy period. If, to go further, a restoration of Europe's buying power must be predicated upon friendly cooperation between foreign nations and our own, then progress seems likely to be equally well blocked by recent events. We have set up a Tariff Wall (however ineffectual) against Europe's goods; we have set up an Immigration Wall (thoroughly effective) against her labor; we have refused to meet with her representatives in the League (although a somewhat vague effort is being made toward the same end, which resolves itself into renaming the League an "International Court"); we have hoarded the gold which European nations paid us under the duress and exigencies of war. These, and a dozen other rebuffs tendered Europe by the American Government since the war scarcely seem calculated to foster the relations that would be essential to inter-cooperation.

As to the existing surplus of ship tonnage, and the theory of "Government Competition," somewhat less discouragement might be warranted than appears to exist. Excerpts from the remarks of President Farrell indicate how illusory the figures on Existing Ocean-Going Tonnage

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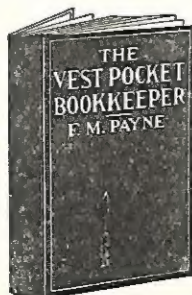
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